Canada Goose (TSX:GOOS) Stock Jumped 43% in 1 Month: Should You Buy?

Description

It has been a challenging year for apparel manufacturers. Store closures and social-distancing measures eroded demand and chewed up revenues and earnings.

Take **Canada Goose** (TSX:GOOS)(NYSE:GOOS), for example. Its revenues plunged over 63% in the most recent quarter, reflecting a significant disruption from the pandemic. The temporary store closures in the DTC (direct-to-consumer) segment and lower shipments in the wholesale business remained a drag. The lower revenues and increased overhead costs led to a substantial decline in its profit margins.

However, as the sell-through rate improves with the reopening of the economy, apparel manufacturers' shares are showing signs of recovery. Canada Goose stock has gained traction after witnessing a massive sell-off due to the pandemic. Shares of the performance luxury apparel maker continue to rise and have increased by over 43% in one month and returned to positive territory in 2020.

The reopening of its stores and recovery in traffic in China is leading to a rally in its stock. But is this uptrend in Canada Goose sustainable? Or will the company's high valuation drag its stock down again?

DTC channel to support upside

Canada Goose's DTC channel is emerging as its biggest growth driver and could continue to support the uptrend in its stock uptrend. The company's DTC channel includes sales to customers through e-commerce operations and directly operated retail stores in North America, Europe, and Asia.

With digital adoption rising rapidly and constrain over international tourism, its DTC business could witness an acceleration in growth rate from its luxury consumer base. Canada Goose is investing in its DTC business at an accelerated pace, including the launch of mobile omnichannel capabilities in its U.S. stores.

Further, new store openings are only concentrated in Mainland China for the near term, as the region continues to witness strong traffic recovery. With a long runway to expand globally and the reopening of retail stores, the DTC segment is expected to support sales and drive margins.

The growing mix shift toward DTC is highly accretive to margins, as the segment generates a higher profit per unit than the wholesale segment. The tailwinds from pricing and manufacturing efficiencies help the company to capture incremental margins.

Unattractive valuation

Canada Goose has performed exceptionally well in the pre-pandemic phase, with its revenues growing at a double-digit rate over the past several years. Moreover, the improving traffic in China, reopening of its stores, and the peak selling season ahead could result in strong sequential improvement in revenues and profits. However, I believe the positives are already priced in its stock.

Canada Goose stock looks expensive and trades at a forward EV-to-EBITDA multiple of 27.9 and a forward P/E ratio of over 70.

Final thoughts

While the improvement in traffic and increasing economic activities are likely to support Canada Goose stock, I would prefer a better entry point, as the current levels look absurdly overvalued. With the continued spread of the virus and uncertain economic outlook, investors should wait for a pullback in Canada Goose stock for better value.

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